

RESUME

OF THE REFORMS TO IMPROVE THE DISTRICT HEATING AND COMMUNAL SERVICES SECTORS IN UKRAINE

The reforms to improve the district heating and communal services sectors in Ukraine are foreseen by the new governmental Program of Housing and Communal Sector Reformation as an integral part of the Ukraine's housing policy that will define basic principles of population provision with housing and organization of reliable operation and housing stock maintenance. Program implementation will facilitate sector operation on market terms in conditions of developed state regulation of heat and water suppliers as natural monopolies.

The Program outlines institutional, legal and organizational measures to pursue structural reforms of the communal services sector. The will allow the government to implement new rules in the housing and maintenance markets, and will help change residents' and businesses' attitudes toward the housing and communal sector. When the reforms are complete, the goal is that utility enterprises will be profitable, efficient companies and will thus will no longer need state budget support.

The Program focuses on the absence of other communal infrastructure financing sources than tariffs, budget support, investments resulted from enterprise concession or privatization and crediting. If operational costs of DH companies are not covered by tariffs and not supported by budget, attraction investments and crediting are impossible. In view of that, one of key priorities of the Program is defined as improvement of tariff policy and change of approaches to sector's budget support.

The Program foresees their gradual bringing into compliance with economically sound options taking into account the investment component. This allows defining the short-term perspective approaches to budget support for utility enterprises and consumers requiring such a support.

Budget funding shall be aimed to:

- stimulate innovation implementation;
- support research provision and development of legal and standard regulation of housing sector;
- provide explanatory activities to population on the issues of housing sector and communal services development, energy efficiency and energy conservation;
- provide easing of credits for investment project implementation in the state priority directions.

These tasks' implementation requires establishment of respective institutional infrastructure. First, it means institutionalization of building owner, which is the creation of condominiums and development of building managers' institution. The Program is aimed to liquidate artificial housing service market monopolization, which causes decreased quality of service provided to population and neglecting consumer rights. This ensures competition development in the housing service market and establishing supervision over housing service quality and reliability. It is planned to implement the modern market system of regulation of activity of natural monopolies due to establishment of the National Regulation Commission in the communal service sector and involvement of the State Housing Inspection in control of license terms compliance by monopoly enterprise.

Subject to necessity of natural gas and electricity saving, reduction of cost utility housing and

communal service production, the Program's key task is reduction of extremely high resource loss and energy intensity of utility enterprise.

The following top-priority activities are included in the Program in view of necessity to resolve abovementioned tasks:

- Formation of a new housing policy of Ukraine focusing on population needs and its opportunities;
- Formation and stimulation of effective housing owner;
- Providing population with opportunities of choice of housing management and its maintenance, liquidation of monopoly of housing and utility operation offices;
- Introduction of the state regulation system for communal service monopoly markets in particular, improvement of tariff policy implementation, license conditions and supervisory system of compliance, consumers' rights protection;
- Improvement of housing stock energy efficiency;
- Development of the communal infrastructure based on energy conservation technologies.

The Program has to be funded by the State Budget of Ukraine, local budgets, enterprise costs and other financing sources not forbidden by legislation.

The major expected Program results shall be:

- energy, heat, gas and water supply available and compulsory to population and enterprises upon condition of timely payment for delivered services;
- quality of housing and utilities services subject to defined quality;
- utility rate compliance with economically justified level and transparency of utility rate and price policy formation;
- establishment of dependency of accommodation and utility service cost on service quality;
- validity and transparency of the state subsidizing policy for low income families;
- decrease of energy resource use in utilities energy sector and residential buildings by 30% within 5 years;
- 100% building level heat, cold and hot water meters installed within 2 years;
- introduction of effective system of state regulation of natural monopoly activities in the branch of water, heat supply and water discharge;
- technical re-equipping of the utility enterprises and communal infrastructure development;
- reduction of housing and utilities service costs and losses to meet the EU level.

From the practical point, according to the Decree of Cabinet of Ministers of Ukraine number 465 of May 7, 2008 a Task Force to develop a National Municipal Heating Strategy was established. It is chaired by Vitaly Gayduk, the Head of the Group of Advisors to Prime Minister. Minister of Housing and Communal Services of Ukraine Oleksiy Kucherenko became the First Deputy Head since this Ministry is delegated coordination of Task Force activities. On 23 June, 2008 the first meeting of the National Municipal Heating Strategy Task Force was held, and the issue of establishment of three specialized work groups was discussed. The groups will be involved in development of the State Program of Communal Energy Sector Development based on regional programs, state regulation development and improvement of energy efficiency in residential buildings under US AID expert support to energy conservation and renewable energy issues.

Discussion of practicability of heat supply system decentralization and shift to individual heating resulted in governmental decision on further support to rehabilitation and development of DH system as a primary strategy for meeting population demand in heat.

Heat supply system reformation goals look very ambitious, and the reformation process should be implemented in complicated external conditions. They include rapid growth of primary energy prices and, first of all, natural gas prices, high inflation, hazard of economic development slow down and population income decrease. At the same time, shift to economically feasible tariff level, which has been postponed for a long time due to excessive politicization of tariff formation issues encouraging technical degradation of heat supply systems, is undelayable.

In respect that housing and communal sector, including heat supply, belongs to the most energy dependent one, the first-order task is mitigation of reformation social price and development of effective mechanisms of low-income families' protection. Tariff formation issues should be depoliticized and separated from confrontation of key political forces. They should become a subject of professional consideration based on consensus. It is extremely important to ensure that the developed reformation strategy is supported by representatives of all political forces. Possibility of implementation of heat supply reformation tasks is critically dependent on this condition fulfillment.

One should stress that Housing and Communal Sector Reformation Program that shall be approved by the government and considered by the Parliament has a range of shortcomings. One them is partial concurrence of expected results, including the quantitative ones, with their achievement measures. This program is partially featured by declarativity. Achievement of some results, for example, adaptation of costs and expenses related to communal service delivery to the EU level till 2012, looks unlikely. Check of some planned results achievement will be impossible due to ambiguity and excessive generality of their definition. As distinct from the Housing and Communal Sector Reformation Program, the developed National Municipal Heating Strategy should primarily include indicators that can be objectively checked for assessment of set goals' achievement.

Reformation of heat supply system as well as the communal sector on the whole, is an urgent process that can not be delayed and started after the Program is considered and approved by Verkhovna Rada. A lot of steps to be taken are evident. They include development of public-private partnership (PPP). PPP is considered the shortest way to attraction of bank and private funds in housing and communal sector. Ukraine has two options: modernization and reconstruction of housing and communal infrastructure either through invested budget funds received by the state budget from tax payers, thus increasing loading on housing and communal service consumers, or through credit and investment funds while budget costs are channeled for attraction of private sector in this economy. Therefore, it is necessary to create legislation framework to encourage cooperation between state and private sectors, so MHCSU has taken certain steps in this direction. Main forms of PPP to be developed in heat supply sector are concession, contracts of lease and management contracts.